BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2017-228-S - ORDER NO. 2018-155

MARCH 7, 2018

IN RE:	Application of Palmetto Utilities, Inc. for Adjustment of Rates and Charges for Customers in the Palmetto Utilities and Palmetto of Richland County Service Areas	)))))	ORDER GRANTING ADJUSTMENT OF RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina("Commission") on the Application of Palmetto Utilities, Inc. ("Palmetto" or "Company"), for an increase in rates and charges for the provision of sewer service and the modification of certain terms and conditions related to the provision of such service.

I. INTRODUCTION

Palmetto filed its Application on August 31, 2017, pursuant to S.C. Code Ann. § 58-5-240 (2015) and 10 S.C. Code Regs. 103-503 and 103-512.4A (2012) based on a proposed test year ending March 31, 2017. By letter dated September 20, 2017, the Commission Clerk's Office instructed Palmetto to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by Palmetto's Application and to mail copies of the Notice of Filing to all customers affected by the proposed rates and charges. The Notice of Filing indicated the nature of the Application and advised all interested parties desiring to participate in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. On October 19, 2017, Palmetto filed an

affidavit and a certificate showing that it had complied with the instructions of the Clerk's office.

Petitions to Intervene were subsequently filed on behalf of J-Ray, Inc. and Sensor Enterprises, Inc., which were granted by Order No. 2017-694 issued November 1, 2017. No other petition to intervene was filed in this case in response to the Notice of Filing and Hearing. Pursuant to S.C. Code Ann. § 58-4-10(B) (2015), the South Carolina Office of Regulatory Staff ("ORS") is a party of record in this proceeding.

II. TESTIMONY RECEIVED FROM THE PARTIES AND PUBLIC WITNESSES

On January 9, 2018, the Commission held a public night hearing at its hearing chambers for the purpose of allowing Palmetto's customers to present their views regarding the Application. Nineteen customers[1] testified at this hearing. The Honorable Swain E. Whitfield, Chairman of the Commission, presided. Thereafter, on January 17, 2018, at 10:30 a.m., a public hearing to receive evidence was held in the hearing chambers of the Commission with Commissioner Whitfield again presiding. Palmetto was represented at the hearings by John M.S. Hoefer, Esquire, and Benjamin P. Mustian, Esquire. Jeffrey M. Nelson, Esquire, and Jenny R. Pittman, Esquire, represented ORS. Although an appearance of record by counsel was entered for J-Ray, Inc. and Sensor Enterprises, Inc. by virtue of their petitions to intervene, no counsel nor other representative of these intervenors appeared at the hearings to present evidence or cross-examine witnesses in this

[1] Although twenty persons presented testimony at this night hearing, James Abraham and Stacy Parish reside at the same premises served by Palmetto [*see* Hearing Exhibit No. 1 at pp. 3-4] and only Mr. Abraham is a customer of the Company. [Tr. p. 311, ll. 2-3.]

matter. Seven customers of Palmetto, including two of whom had testified at the public night hearing, testified at the January 17 evidentiary hearing.[2] Accordingly, a total of 24 customers testified in this matter.

Palmetto presented the direct testimonies of five witnesses: (1) Donald J. Clayton, a registered professional engineer in the Commonwealth of Pennsylvania, Chartered Financial Analyst, and Certified Depreciation Professional who prepared the Company's rate filing as an outside consultant[3]; (2) Marion F. Sadler, an environmental and utility consultant retired after 34 years of employment by the South Carolina Department of Health and Environmental Control ("DHEC") in the areas of utility permitting and development of DHEC regulations for wastewater design guidelines, who advised and assisted Palmetto on its study to determine the number of single family equivalencies ("SFEs") existing in the portion of the Company's authorized service area formerly served by Palmetto of Richland County, LLC ("PRC")[4]; (3) Andrena-Powell Baker, Senior Manager of Community Relations and Development for Palmetto[5]; (4) Bryan D. Stone, Chief Operating Officer of Palmetto[6]; and (5) Mark S. Daday, Chief Financial Officer of Palmetto[7]. Mr. Daday also gave rebuttal testimony on behalf of Palmetto.[8] By agreement

[2] Tr. p. 154, ll. 11 - 25. Although Samuel T. Brick testified at this hearing, Hearing Exhibit 2 reflects that he is not the customer of record at his residence.

[3] Tr. p. 329, ll. 11-13, p. 330, ll. 9-19.

[4] Tr. p.340, l. 3 - p. 345, l.2.

[5] Tr. p. 176, l.1 - p.183, l. 22.

[6] Tr. p. 191, l.1 - p. 206, l.20.

[7] Tr. p. 216 l. 1 - p. 232, l.19.

[8] Tr. p. 243, l. 1 - p. 257, l. 21.

of the parties participating in the hearing, and with the Commission's approval, Mr. Clayton's verified direct testimony with exhibits and Mr. Sadler's verified direct testimony with exhibits were stipulated into the record.

The direct testimony of three witnesses was presented by ORS: 1) Aisha L. Butler, Senior Auditor in the ORS Audit Department[9]; 2) Michael-Seaman Huynh, Senior Regulatory Manager in the ORS Utility Rates and Services Division[10]; and 3) Willie J. Morgan, P.E., ORS Deputy Director for Utility Rates[11]. In addition, ORS presented surrebuttal testimony of Ms. Butler[12], Mr. Morgan[13], and Douglas H. Carlisle, Ph.D., its Economist[14]. By agreement of the parties participating at the hearing, and with the Commission's approval, Mr. Morgan's direct testimony with exhibits and surrebuttal testimony with exhibits were adopted by his supervisor, Dawn M. Hipp, Director of the ORS Utility Rates and Services Department. Also, by agreement of the parties participating at the hearing, and with the Commission's approval, Dr. Carlisle's verified surrebuttal testimony with exhibits was stipulated into the record.

At the beginning of the hearing, ORS moved to include in the record of evidence in this case two written stipulations entered into between ORS and Palmetto on January 5, 2018, regarding a disputed issue in this proceeding, specifically the inclusion in allowable plant of the wastewater collection and transportation system previously approved by the

[9] Tr. p. 398, l.10 - p. 415, l.18.
[10] Tr. p. 380 l. 10 - p. l. 389, l.5
[11] Tr. p. 371, l.10 - p. 375, l. 4.
[12] Tr. p. 418, l. 11 - p. 430, l.10.
[13] Tr. p. 371, l. 10 - p.375, l. 4.
[14] Tr. p. 446, l. 11 - p. 448, l. 2.

Commission to be acquired by PRC from the City of Columbia. *See* Order No. 2012-960, Docket No. 2012-73-S, issued December 21, 2012. This system became part of the Palmetto system as a result of the Commission's approval of the merger of PRC into Palmetto. *See* Order No. 2017-433, Docket No. 2017-105-S, issued July 11, 2017. Under the terms of these stipulations, this disputed issue is reserved for a determination in a future rate proceeding, and the fact that it is not resolved in the instant proceeding does not preclude either Palmetto or ORS from taking a position regarding the valuation of this system or inclusion in plant for ratemaking purposes in any such future proceeding. As a result of these stipulations, some Eighteen Million ($18,000,000) Dollars in assets claimed by Palmetto to form part of allowable plant would not be considered in this proceeding for purposes of determining just and reasonable rates. The Commission accepts these stipulations and therefore is not considering the value of this disputed plant for ratemaking purposes in the instant proceeding.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. BACKGROUND

Palmetto is a public utility providing sewer service to approximately 26,200 residential, commercial, and industrial customers as of March 31, 2017[15] (or approximately 32,080 SFEs) [Hg. Exhibit 11, MSH-2 at 1.] These customers are located in certain unincorporated areas of northeastern Richland County, the Town of Blythewood, and an adjoining area in southwestern Kershaw County.[16] As a public utility, its operations are

[15] Tr. p. 382, ll. 9-11.

[16] Tr. p. 382, ll. 5-6; Tr. p. 193, ll. 16-23.

subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §§ 58-5-10 *et seq*. (2015).

In 1987, Palmetto was designated by Richland County to be the implementing agent under the Federal Clean Water Act Water Quality Management Plan adopted by the Central Midlands Council of Governments for the regional system designated to serve northeastern Richland County ("208 Plan").[17] Under the 208 Plan, wastewater flows from several small treatment plants, along with flow from the former PRC territory previously treated by the City of Columbia, have been diverted to the Company's Spears Creek Regional Wastewater Treatment Plant ("WWTP") that has been constructed by the Company in the Wateree River drainage basin on Spears Creek.[18]

Since its last rate relief proceeding, Palmetto has made approximately $80 million in capital investments in a series of upgrades and improvements to its facilities.[19] Included in these investments is the construction of a pipeline (the "Northern Pipeline" or "PRC Pipeline") to transport wastewater flow from the customers in the former PRC service area previously treated by the City of Columbia, which also addressed bottlenecking issues with Palmetto's previously existing collection and transportation lines, opened additional areas to development, and comported with the 208 Plan.[20] The PRC Pipeline project also included the installation of a new, larger capacity lift station at Kelly Mill Road.[21] In order

[17] Tr. p.87, line 23 – 25; p.204 ll. 3-8; p. 221, ll. 13-17.

[18] Tr. p. 247, ll. 19-21.

[19] Tr. p. 195, ll.6 – 9.

[20] Tr. p. 196, l.1 - p. 198, l. 12.

[21] Tr. p. 195, ll. 16-19; p. 204, ll. 20-22; p. 205, l.17 – p. 206, l.3.

to handle current average, peak and committed flow from the entire Palmetto system, Palmetto expanded the capacity of the WWTP from six million gallons per day ("MGD") to twelve MGD.[22] This amount of flow could not be disposed of by land application in the rapid infiltration basins ("RIBs") previously utilized by Palmetto. Therefore, Palmetto installed an effluent outfall line (the "Wateree Discharge Pipeline") approximately 12 miles in length and capable of transporting twelve MGD of treated wastewater from the WWTP to a discharge point on the Wateree River in Kershaw County as contemplated by the 208 Plan.[23] Since effluent from the WWTP was to now be disposed of by discharge into the Wateree River as opposed to land application in the RIBs, Palmetto upgraded the treatment process at the WWTP to include a sequencing batch reactor system and ultraviolet disinfection system capable of meeting permit limits under its National Pollutant Discharge Elimination System ("NPDES") permit issued by DHEC.[24] These new plant facilities are in operation and serving customers.[25] These new facilities – as well as the previously existing facilities used by Palmetto in providing sewer service – are all operating in conformance with both Commission and DHEC requirements, rules, and regulations.[26]

B. PALMETTO'S APPLICATION

Palmetto's current schedule of rates and charges for customers (other than customers in the former PRC service area) was approved by Commission Order No. 2015-

[22] Tr. p. 199, ll. 3-15; p. 200, ll. 4-14.

[23] Tr. p. 201, l.18 - p.203, l. 11.

[24] Tr. p.199, l.16 - p. 201, l. 17; Hearing Exhibit 11, Ex. MSH-1, p.3

[25] Tr. p. 365, ll. 3-7; Hearing Exhibit 11, Ex. MSH-1, p.3.

[26] Application Exhibit C; Tr. p. 365, ll. 3-7; Hearing Exhibit 11, Ex. MSH-1, p.3; Tr. p. 372, ll. 4-10.

153, issued March 3, 2015, in Docket No. 2013-42-S. Under that schedule, Palmetto charges residential customers a flat rate of $36.50 per month. Commercial customers, including industrial customers, are charged a flat monthly rate of $36.50 per SFE.

By contrast, Palmetto's current schedule of rates and charges for customers in the former PRC service area was authorized by Commission Order No. 2012-960, issued December 21, 2012, in Docket No. 2012-273-S, and continued identically the schedule of rates and charges (including base facilities fee and consumption charge) then being charged by the City of Columbia to these PRC customers. Under that PRC schedule, Palmetto charges residential customers[27] a monthly base fee of $10.20 and a monthly consumption charge of $4.93 per 100 cubic feet of water consumed, with the average residential customer in the former PRC service area currently paying $41.60 per month for sewer service. Commercial customers in the former PRC service area pay a monthly base facilities fee ranging from $10.20 to $255, but the same consumption charge as residential customers.

Palmetto seeks to accomplish two primary goals in its Application: (1) increase its monthly sewer service revenues; and (2) consolidate the rate designs and tariff provisions so that all customers (including the former PRC customers) pay the same flat monthly sewer service charges and the same non-recurring charges. It proposes to do this by having a uniform rate schedule that would generate $11,392,065 in additional annual revenue based on (1) a flat monthly residential service fee of $68.05; (2) a flat monthly commercial

[27] There are three residential customers utilizing a larger water meter, who pay a base facilities fee of $16.32 per month, but the same consumption charge as other residential customers. Hearing Exhibit 11, Ex. MSH-2, p.1.

service fee of $68.05 per SFE based on the capacity loading guidelines contained in 6 S.C. Code Ann. Regs. 61-67, Appendix A (Supp. 2016); and (3) a reduction in non-recurring charges for new customers in the former PRC service to those previously approved by the Commission for Palmetto in Order No. 2015-153.[28] With regard to the non-recurring charges, this would require a reduction in the currently-approved (1) connection charges from $1,300/$300 to $250; (2) plant expansion/impact fee from $2,640 to $800; and (3) customer account fee from $30 to $20. (The higher figures are those now applicable to the customers in the former PRC service territory and the lower figures are those now applicable to customers in the Palmetto service territory).

C. RATE MAKING METHODOLOGY

Generally, the Commission has wide latitude to determine an appropriate rate-setting methodology. *Heater of Seabrook, Inc. v. Public Service Comm'n*, 324 S.C. 56, 478 S.E.2d 826 (1996). The operating margin methodology typically is appropriate where a utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction ("CIAC"), and book value in excess of investment. *Id.* The operating margin is "[d]etermined by dividing the net operating income for return by the total operating revenues of the utility." *Heater of Seabrook, Inc. v. Public Service Comm'n*, 332 S.C. 20, 24, 503 S.E.2d 739, 741, n.1 (1998).

In this case, although Palmetto's rate base is significant, it has been substantially reduced by CIAC.[29] However, more importantly, Palmetto did not seek to have its rates set

[28] Application Exhibits A and B.

[29] See, e.g., Hearing Exhibit 13, ALB-3

employing rate base methodology because its analysis showed that the additional annual revenue requirement, assuming a return on equity in the 10% range, would have been higher than the $11,392,065 requested, and Palmetto was already mindful of the effect on customers.[30] Further, Palmetto presented testimony concerning the operating margin resulting from the proposed rates.[31] ORS provided testimony concerning a range of appropriate operating margins for Palmetto[32] and did not oppose the use of the operating margin methodology.[33] There was no evidence presented supporting the use of any other ratemaking methodology. Accordingly, the Commission will utilize operating margin in setting Palmetto's rates in this case.

D. TEST YEAR

The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Pub. Serv. Comm'n*, 328 S.C. 222, 493 S.E.2d 92 (1997). The historical test year may be used as long as adjustments are made for any known and measurable out-of-period changes in expenses, revenues, and investments. *Id.* Palmetto's financial statements in this case used a test year ending March 31, 2017.[34] ORS utilized the same test year in conducting its examination.[35] Given that this test year ended

[30] Tr. p. 255, l. 18 - p. 256, l. 5.

[31] Tr. p. 334, ll. 7-14.

[32] Tr. p. 368, ll. 8-16, p. 432, ll. 1-4.

[33] Tr. p. 434, ll. 9-16.]

[34] Application Exhibit B; Tr. p. 331, l.20.

[35] Tr. p. 368, ll. 10-11.

within five months of the filing of Palmetto's Application, and since no other test year was proposed, the test year ending March 31, 2017, is appropriate and will be used in this case.

E. ADJUSTMENTS TO REVENUES

ORS calculates Palmetto's test-year revenues as $16,256,412 and proposes to adjust these revenues upward by $184,101 (to total $16,440,513) to normalize test year revenue using consumption data provided by Palmetto.[36] Palmetto did not oppose this adjustment to test-year revenues, and accordingly, the Commission finds that $16,440,513 reflects the correct level of revenues for Palmetto for the test year after adjustments. ORS determined, and Palmetto did not disagree, that Palmetto's schedule of rates for sewer service and non-recurring charges proposed in its Application, if approved, would increase its operating revenues by $10,707,467.[37]

F. ADJUSTMENTS TO EXPENSES

The Commission adopts the ORS expense adjustments other than for certain matters (discussed below) for five categories of expenses which are at issue: (1) interest expense, (2) sludge expense, (3) extraordinary retirement allowance, (4) income tax expense, and (5) rate case expense. The Commission adopts the position of Palmetto in some instances and the position of the ORS in others. The net result of the Commission's conclusions results in Palmetto's allowable expenses for the test year (after pro forma and accounting adjustments) being $16,135,051.

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[36] Tr. p. 384 ll. 18-19; Hearing Exhibit 13, Surrebuttal Ex. ALB-2 at 1.

[37] *Id.*, Tr. pp. 243-257.

1. INTEREST EXPENSE

PUI challenged ORS' proposed adjustment to the Company's allowable interest expenses by the use of interest synchronization. Specifically, PUI witness Daday testified in Rebuttal that interest synchronization was inappropriate in an operating margin case and that the utility should be permitted to include in its allowable expenses its entire actual interest expense of $2,145,274.[38] In surrebuttal, ORS witnesses Carlisle and Butler both addressed ORS' opinion regarding the propriety of the use of interest synchronization and supported ORS' adjustment. Specifically, ORS witness Carlisle testified regarding his calculation of the Company's Capital Structure and Weighted Average Cost of Debt ("WACD"), which were used by ORS Audit Department Witness Butler in her calculation of interest synchronization. During the course of its audit and inspection of the Company's books and records, ORS requested, and the Company provided in September 2017, information regarding PUI's Capital Structure and WACD.[39] Based on this information, Dr. Carlisle calculated PUI to have a debt to equity ratio of 45% Debt to 55% Equity.[40] To determine the WACD Dr. Carlisle used the debt rate of 4.84% provided by PUI. We find the methodology and resulting debt ratio and debt rate testified to by Dr. Carlisle to be fair and reasonable and based on known and measurable data.

In her direct testimony, ORS Witness Butler testified to her adjustment to PUI's interest expense based on her use of interest synchronization.[41] In surrebuttal, in response

[38] Tr. pp. 253-254.

[39] Tr. p.447 and Surrebuttal Exhibit DHC-2 of Hearing Exh.8.

[40] Tr. p. 447.

[41] Tr. p. 413.

to the ORS interest adjustment addressed in the Rebuttal Testimony of PUI Witness Daday, Ms. Butler provided more detail regarding this adjustment and discussed the purpose and reasoning behind its use. Ms. Butler testified that her proposed adjustment of ($365,764) to the Company's interest expense was based on her use of a total rate base for PUI of $81,703,849, and the 45% debt to 55% equity capital structure and 4.84% WACD provided to her by ORS Witness Carlisle to calculate PUI's synchronized interest expense.[42] Ms. Butler then subtracted the Company's per book interest expenses from her calculated synchronized interest to yield her adjustment of ($365,764).[43] The Commission finds no error in either the values or methodology used by Ms. Butler in her calculation of synchronized interest and find that the adjustment to PUI's interest expenses proposed by ORS is correct and proper. Interest synchronization equitably allocates interest expenses between PUI and its ratepayers by allowing the Company to recoup the cost of long term debt incurred in making investments in its rate base while disallowing the cost of debt incurred for purposes which do not benefit the ratepayers. The cost of debt incurred for other uses, such as financing the payment of a premium for the acquisition of another system, should be borne by the utility's owners or shareholders, and not its ratepayers.

This Commission has consistently approved the use of interest synchronization, both in rate of return and operating margin rate cases.[44] This Commission has additionally accepted synchronized interest as a component of a utility's allowable expenses in several

[42] Tr. pp. 428-429.

[43] Tr. p. 428.

[44] See, Commission Orders No. 92-84, 2004-101, 2005-168.

recently decided cases.[45] Further, the Company itself accepted ORS' use of interest synchronization in a Settlement filed in its last rate case before the Commission.[46] While Company Witness Daday points to a 2001 Circuit Court case as support for PUI's position that interest synchronization is improperly applied here[47], in that case the Commission staff had failed to establish a rate base for the Company. That is not the case here where ORS has provided substantial evidence in support of both a rate base and debt to equity ratio.

As noted by Ms. Butler in her surrebuttal testimony, this Commission generally disallowed utilities' long term interest as an expense prior to its adoption of interest synchronization.[48] Interest synchronization has been accepted as a proper methodology to allow utilities to recover from its ratepayers that portion of its long-term debt expenses which has been incurred to finance plant. We concur with ORS' adjustment based on the ratemaking theory that a utility should be permitted to recover its borrowing costs, but only those which have been incurred to construct facilities which serve its customers. As a result, Palmetto's allowable interest expense will be $1,779,510.

2. SLUDGE DISPOSAL

Unadjusted test-year sludge disposal expense was $248,779. Palmetto proposed to include $408,708 in sludge disposal expense, which included a *pro forma* proposed adjustment of $159,929, based on a pro-rata calculation using the gallons of wastewater expected to be treated and the historic cost for sludge disposal service. Palmetto's original

[45] Commission Orders 2017-277(A) and 2017-80.

[46] See, Commission Docket 2013-42-S.

[47] Tr. p. 254.

[48] Tr. pp. 428-429. See, Commission Order No. 2004-101, p.16.

proposed adjustment projected an increase in the test year sludge disposal cost based upon the 64% increase in wastewater flow to the WWTP. Palmetto modified their proposed adjustment which reduces flow increase to 50% to arrive at a more conservative estimate of $133,274 for the increase in this cost.

ORS asserted that the absence of "actual invoices" rendered the estimate insufficient and that the proposed adjustment was "not known and measurable."[49] ORS instead proposed to increase the test-year sludge disposal expense by $1,614. Mr. Morgan testified in surrebuttal that ORS utilized the actual sludge generation and disposal expense incurred by the Company of $250,393 for the most recent 12-month period. ORS acknowledged that the Company's new Spears Creek Regional Wastewater Treatment Plant ("Spears Creek WWTP") had only begun operation in October 2017 and that the Company had only been able to provide one invoice from sludge disposal at the new facility.[50] However, ORS was unwilling to accept the Company's estimated costs as such were not "known and measurable." ORS therefore supported its adjustment for sludge disposal based on the last actual twelve months of invoices. ORS thereby refused to accept the Company's proposed adjustment of an additional $133,274 in sludge disposal costs. The Commission agrees with the ORS that the company's expense for sludge disposal is not known and measurable and adopts the ORS expense of $250,393.

[49] Tr. p. 402, l. 19 – p. 403, l.1.

[50] Tr. pp. 372-73.

3. EXTRAORDINARY RETIREMENT ALLOWANCE

When Palmetto initially filed its Application, it was utilizing the Rapid Infiltration Basins ("RIBs") to dispose of the effluent from the WWTP.[51] Thus, it included in its Application as allowable plant (1) a drainage structure that routed seepage from the RIBs beneath Crabapple Lane (a dirt road maintained by Kershaw County) (the "Crabapple drainage system")[52], and (2) a tract of land adjoining that road to receive and naturally disperse this seepage. Palmetto also included in its Application expenses associated with the operation of the RIBs and the Crabapple drainage system.[53]

Because the RIBs were taken out of service, ORS removed $140,073 in operating and maintenance expenses related to the RIBs, $210,284 in net plant associated with the Crabapple drainage system, and $200,063 for the adjoining land.[54] Palmetto does not dispute the removal of operating and maintenance expenses. However, it contends that it is entitled to an extraordinary retirement allowance for the $410,347 removed by ORS from plant and land, with the same to be amortized over a five-year period (which generates $82,069 in additional annual expenses).[55]

ORS did not agree to an extraordinary retirement allowance for the Crabapple drainage system or the adjoining land on the theory they were installed and acquired "in an

[51] Tr. p. 253, ll. 14-15.

[52] Kershaw County also filed legal action which necessitated the construction of the Crabapple drainage system to address the fact that Crabapple Lane had been eroded by seepage from the RIBs and had become impassable. Tr. p. 202, ll. 13-16

[53] Tr. p. 253, ll. 15-16; Tr. p. 394, ll. 9-12.

[54] Tr. p. 425, l. 16 – p. 426, l.2.

[55] Tr. p. 253, ll. 18-20.

effort to mitigate and resolve the complaints and comply with the Consent Agreement" between Palmetto and DHEC arising from the seep from the RIBs.[56] ORS further asserts that because the land can be sold, an allowance for extraordinary retirement would be improper.[57]

The Commission agrees in part with Palmetto and in part with ORS. The closing of the RIBs and the associated Crabapple drainage system is a known and measurable change, as is evidenced by ORS's removal of the related operations and maintenance expenses. Further, where wastewater disposal facilities installed by a utility are used and useful in providing service, they are allowable in plant for ratemaking purposes. *See Heater of Seabrook, Inc. v. Public Service Commission*, 332 S.C. 20, 24, 503 S.E.2d 739, 741, n.2 (1998), citing *Hamm, supra,* 309 S.C. at 285, 422 S.E.2d at 112 (1992) (public utility plant is "used and useful" where it is "necessarily devote[d] to rendering the regulated service").

Prudent operations, the legal action by Kershaw, and the DHEC Consent Agreement clearly required corrective action to address the seepage from the RIBs and ultimately the retirement of the RIBs themselves (due among other reasons to nitrate levels in samples taken from the seepage).[58] When facilities are installed at the behest of environmental regulatory authorities and local governments, the usefulness of those facilities from a ratemaking viewpoint becomes even more compelling – not less as ORS

[56] Tr. p. 374, l. 20 – p. 375, l. 1.

[57] Tr. p. 375, ll. 1-2.

[58] See, e.g., Hearing Exhibit 10, Surrebuttal Ex. WJM-3 at 2, para. 4, at 3-4, para.12, at 4, para. 14, at 7, para. 4, at 8, para.12, and at 11-12, para. 5.

suggests is the case. The Crabapple drainage system installed by Palmetto and the acquisition of the adjoining land to handle the associated flow from the seeps were necessary to address environmental and legal concerns regarding the disposal of effluent from the RIBs.[59]

Having determined that the Crabapple drainage system and land were used and useful in providing service, the question then becomes whether their subsequent retirement was necessary and appropriate. An extraordinary retirement allowance is appropriate where government regulations render utility plant wholly or partially obsolete or totally inefficient. Robert L. Hahn and Gregory E. Aliff, *Accounting for Public Utilities,* § 4.04[11][c], Matthew Bender (2016). Further, where a retirement involves the substitution of more efficient equipment or is for the public's benefit, an amortization of the undepreciated plant being retired is appropriate. *Id.* This Commission has previously approved an amortization for extraordinary retirement of sewer utility facilities. For example, in *Application of Moore Sewer, Inc.*, Order No. 2003-477, Docket No. 2003-41-S (2003), we approved a five-year amortization of treatment plant when the utility ceased using it and interconnected with another utility.

[59] The fact that these concerns did not result in the issuance of a notice of violation or order by DHEC (*cf.* 10 S.C. Code Ann. R. 103-514.C(2012)), but was resolved by Consent Agreement to a corrective action plan resulting in the installation of the drainage system to transport flow from a seep or seeps (found by DHEC to be indicative of a discharge of effluent from the RIBs which may have affected local groundwater) does not prevent the Commission from concluding that these facilities were used and useful. To the contrary, this Consent Agreement demonstrates that it was necessary for Palmetto to install the facilities as part of the corrective action plan contemplated therein. *See Heater, supra*.

Here, it is evident from the testimony of Mr. Stone that the construction of the Wateree Discharge Pipeline and the concomitant shutdown of the RIBs were mandated by DHEC due to its concern regarding the RIBs' effect on local groundwater sources, the additional flow coming from the former PRC territory that the RIBs were not capable of handling, and the lack of other discharge alternatives.[60] Further, ORS has not asserted that the construction of the Wateree Discharge Pipeline was not prudent or necessary but, to the contrary, has included it in allowable plant for purposes of this case.

In light of the foregoing, the Commission makes three findings:

First, the Commission approves the removal of $140,073 in operating and maintenance expenses related to the RIBs, as agreed to by both ORS and Palmetto.

Second, the Crabapple drainage system was necessary to address the seepage of effluent from the RIBs and was therefore appropriately included in Palmetto's disposal plant. Having recognized that this part of Palmetto's disposal plant is no longer used and useful in providing utility service as a result of the issues discussed above, the Commission further finds that Palmetto is entitled to the requested extraordinary retirement allowance of $210,284, which may properly be amortized over the requested five-year period (resulting in an annual adjustment of $42,056).

Third, the Commission agrees with ORS that an extraordinary retirement allowance is not warranted for the land adjoining Crabapple Lane acquired by Palmetto. As asserted

[60] Tr. p. 201, l.18 – p. 203, l.11.

by ORS, it is possible that the land could be sold. Therefore, an extraordinary retirement is not appropriate at this time.

4. INCOME TAX

In surrebuttal testimony, ORS proposed to reduce Palmetto's allowable income tax expense by applying the 21% rate for corporate income under the Federal Tax Cut and Jobs Act, Public Law 115-97 (the "Act") instead of the 34% rate which applies to the Company's 2017 federal income tax.[61] ORS also noted, however, (1) that "there are other components of the [Act]," (2) that it had "only accounted for the change in the … rate," and (3) that it "reserved the right to implement other components of the [Act] in future rate case proceedings" once it had conducted "a more thorough review of the [Act]."[62] On cross examination, Ms. Butler acknowledged that ORS has not performed a complete calculation of the impact of the Act on Palmetto's corporate income taxes.[63]

At the hearing, Mr. Daday asserted that the effect of the Act was not yet known and measurable because, even though the Act reduced the applicable tax rate, other provisions of the Act will increase Palmetto's actual federal income tax liability.[64] He also pointed out that the Internal Revenue Service has not even had an opportunity to issue interpretations implementing the Act, which was only signed into law by the President on

[61] Tr. p. 426, ll. 5-10.

[62] Tr. p. 427, ll. 16-21.

[63] Tr. p. 433, l. 23 – p. 434, l.1.

[64] Tr. p. 241, ll. 6-21.

December 22, 2017.[65] Mr. Daday requested that Palmetto be given the same treatment as proposed by ORS for other jurisdictional utilities and be allowed to address the Act's impact on Palmetto in Docket No. 2017-381-A[66]

The Commission finds that Mr. Daday's assertion regarding the unknown implications of the Act is correct (and that ORS has acknowledged as much in its testimony). As an example, the Commission notes that section 13312(B) of the Act provides that CIAC will no longer to be treated as contribution to Palmetto's capital, but instead will be treated as ordinary income. This amendment would increase Palmetto's income for federal (and potentially state[67]) income tax purposes in 2018.[68] Further, section 13301 of the Act limits the amount of interest deduction that can be claimed by a corporation. This, too, would appear to increase Palmetto's federal and state income tax in 2018. In effect, ORS proposes to implement provisions of the Act that reduce taxes, but ignore the Act's provisions that (by its own admission) increase taxes.

In view of the foregoing, the Commission cannot adopt ORS's proposed adjustment of the Company's income taxes, because the effect of the Act is not a known and measurable change. If the ORS position were adopted, it would require the Commission

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[65] Tr. p. 258, l. 23 – p. 259, l.1; Tr. p. 286, ll. 3-5.

[66] Tr. p. 241, ll. 6-24; Tr. p. 285, ll. 2-l8.

[67] *See* S.C. Code Ann. §§ 12-6-40 and 50 (provisions relating to adoption or non-adoption of federal income tax law for purposes of state income tax).

[68] The Commission takes notice that a previous version of Palmetto's approved rate schedule permitted the Company to require customers to pay a "tax multiplier" to allow it to recover the tax imposed on the receipt of a CIAC such as Palmetto's $800 plant impact fee. *See*, e.g., Order No. 88-311, issued March 23, 1988, in Docket No. 87-57-S, Appendix A at 3, paragraph 7. This provision was removed by the Commission in response to a subsequent amendment to Federal tax law. See Order No. 97-699, issued August 12, 1997, in Docket No. 96-376-S, at 5, paragraph 14 ("[r]emoval of the tax multiplier is simply consistent with the change in the law").

to impermissibly rely upon speculation as to what Palmetto's taxes will be in 2018. ORS and Palmetto will both have an opportunity to address the impact of the Act on Palmetto in Docket No. 2017-381-A. Thus, ORS's request to reduce test year operating revenues related to income tax savings is rejected.

5. RATE CASE EXPENSE

Palmetto proposed to include rate case expenses incurred in this rate case through December 31, 2017, which ORS has accepted as appropriate, amortized over three years.[69] Palmetto further proposed that additional rate case expense incurred through the date of hearing in this matter be included and ORS agreed to this proposal, subject to its review of the requested additional amount and examination of supporting documentation.[70] ORS has now advised the Commission that it received and reviewed the documentation supporting the additional rate case expenses requested by Palmetto and agrees with them. Because the additional rate case expenses are known and measurable, the Commission will allow them to be included in the total rate case expense and amortized over three years. We find the Company is entitled to $260,855 in total rate case expenses, including $58,598 submitted to ORS post-hearing. This amount amortized over 3 years less the Company's per book amount yields a post hearing adjustment of $51,993.

6. EXPENSE ADJUSTMENT SUMMARY

To summarize the foregoing, (1) allowable interest expense shall be $1,779,510, (2) allowable sludge expense shall be $250,393 (3) extraordinary retirement allowance

[69] Tr. p.432, ll. 14-18; ORS February 5, 2018 update to Audit Surrebuttal Exhibit ALB-1.

[70] Id.

shall be $210,284 (to be amortized over five years), (4) income tax expense shall be $1,814,987 calculated at a 37.3% effective tax rate and (5) additional rate case expense of $58,598 was submitted to, and verified by ORS post-hearing, and is being amortized over three years.

G. TOTAL INCOME FOR RETURN

Based upon the above determinations concerning the accounting and *pro forma* adjustments, and Palmetto's revenues and expenses, the as adjusted total income for return is $2,124,616, calculated as follows:

Operating Revenues	$ 16,440,513
Operating Expenses	14,355,541
Net Operating Income	2,084,972
Customer Growth	39,644
Total Income for Return (Before Interest)	$2,124,616

H. OPERATING MARGIN

Based upon Palmetto's gross revenues for the test year, after accounting and *pro forma* adjustments under the presently approved schedules, Palmetto's operating expenses for the test year after accounting and *pro forma* adjustments, and customer growth, Palmetto's present operating margin is as follows:

BEFORE RATE INCREASE

Operating Revenues	$16,440,513
Operating Expenses	14,355,541
Net Operating Income	2,084,972

Add: Customer Growth	39,644
Less: Interest Expense	1,779,510
Total Income for Return	$345,106
Operating Margin (After Interest Expense of $1,779,510)	2.10%

This operating margin is below the 17.98% which is currently authorized for Palmetto in Order No. 2015-153, the 16.12% which resulted from the rates proposed based on revenues and expenses contained in the Company's Application[71] and the 15% recommended by ORS[72]. The Commission determines that Palmetto should have the opportunity to earn an additional $4,515,286 in annual operating revenues, which results in an operating margin of 15.00%. The operating margin is calculated as follows:

AFTER RATE INCREASE

Operating Revenues	$20,955,799
Operating Expenses	16,125,360
Net Operating Income	4,830,439
Add: Customer Growth	91,846
Less: Interest Expense	1,779,510
Total Income for Return	3,142,775
Operating Margin (After Interest Expense of $1,779,510)	15.00%

[71] Tr. p. 334, ll.10-11.

[72] Tr. p. 432, ll. 1-4.

The Commission concludes that an increase in rates is necessary and warranted. Palmetto's operating expenses have increased since its last rate case. [73] It has made significant investments in used and useful plant and facilities required to meet its obligations as a public utility and as a designated management agency under the 208 Plan.[74] The proposed rate increase is designed to generate additional revenues that will allow Palmetto to recover its operating costs, preserve its financial integrity, and to increase its earnings to a more reasonable level through fair charges to the consumer.[75]

I. RATE DESIGN

The proper rate design for PUI was an issue which was raised by several public witnesses, all of whom argued for the use of rates based on water consumption or usage as opposed to the flat rate proposed by the Company. We find that an alternative rate design based on water usage is not feasible. PUI does not provide water service and, therefore, does not have water consumption data on which to base sewer charges. Obtaining such water consumption data would result in additional billing expenses for PUI which would be passed on to customers. To require the Company to continue charging rates based upon water usage in a portion of its service area would require the Company to continue to incur the costs of maintaining two billing systems, which would necessarily be passed on to the customer. The public witnesses offered no information with respect to the amount of these costs and, as noted above, no suggestion regarding the rates which would result.

[73] Tr. p. 333, l. 20 – p. 334, l. 3; Tr. p. 33, ll. 11-16; Tr. p. 225, ll. 14-19; Trp. 228, ll. 1-5.

[74] Tr. p. 225, ll. 14-19; Tr. p. 228, ll. 6-11; Tr. p. 195, ll. 6-21; Tr. p. 33, ll. 4-14.

[75] Tr. p.232, ll. 1-17; Tr. p. 336, l.19 – p. 337, l.2; Tr. p. 256, ll. 6-14

Although Ms. Reynolds and Ms. Baskins stated their objections to the continuation of the current flat monthly sewer charge rate design on the grounds that they discharge significantly less wastewater than do customers whose premises are occupied by large families, they did not propose an alternative rate design. Moreover, while several customers of PUI may occupy single person residences, the Company is required to make capacity available in its system to serve any number of persons who may occupy or visit a residence. Further, and as noted by Company witness Daday, many of the customer complaints which the Company deals with are related to incorrect meter readings which the Company has received from the City. This creates confusion with the Company and customers and results in the need to correct billing errors.[76] As noted above, uniform flat rates are generally preferred and the burden of establishing the reasonableness of a non-uniform rate design lies with those seeking it. See August Kohn and Co., Inc. v. The Public Service Commission of South Carolina, 281 S.C. 28, 313 S.E.2d 630 (1984). For the reasons discussed above, we conclude that this burden has not been met in the present case by the public witnesses.

Rate design is a matter of discretion for the Commission. In establishing rates, it is incumbent upon us to fix rates which "distribute fairly the revenue requirements [of the utility.]" See Seabrook Island Property Owners Association v. S.C. Public Service Comm'n, 303 S.C. 493, 499, 401 S.E.2d 672, 675 (1991). Our determination of "fairness" with respect to the distribution of the Company's revenue requirement is subject to the

[76] Tr. p. 262.

requirement that it be based upon some objective and measurable framework. See Utilities Services of South Carolina, Inc. v. South Carolina Office of Regulatory Staff, 392 S.C. 96, 113-114, 708 S.E.2d 755, 764-765 (2011). The Supreme Court has approved of our use of single family equivalents in the rate design for a sewer utility where the evidence supports it. See Seabrook Island Property Owners Ass'n v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E.2d 672 (1991). The current rate design providing for uniform, flat rates for residential customers meets this requirement in that it recognizes that even though residential wastewater flow can vary considerably by and among customers, there is no means by which these variances in demand may be readily and economically measured. Thus, spreading the cost associated with that service equally among all customers within the class based upon design guidelines projecting their relative maximum daily wastewater discharges is both objective and measurable. Similarly, the imposition of flat rates on commercial customers based upon equivalencies established under the DHEC guidelines found in Appendix A to R. 61-67 satisfies this requirement in that it treats similarly situated commercial customers uniformly, while recognizing that differences exist in the pollutant strength of wastewater and the volume of wastewater flow between commercial and residential customers. We decline to adopt the alternative of rates based on water usage as proposed by the public witnesses as it is not based upon a measurable framework since the Company does not provide metered water service to its customers.

J. APPROVED RATES

In view of our determination regarding additional allowable revenues and rate design, the Commission approves a flat monthly sewer service rate of $52.10 for Palmetto.

K. PLANT IMPACT FEES

Palmetto proposed in its Application that the current plant impact fees, connection fees, and customer account charges for new customers in the former PRC service area be reduced from $2,640, $1,300/$300, and $30, respectively, to the same level as those which apply to the Company's other customers which are $800, $250, and $20, respectively.[77] The current charges for these customers were approved in Order No. 2012-960 and reflect the charges then imposed by the City of Columbia. [*Id.*] According to Palmetto, this reduction in non-recurring charges (along with the proposed modification to the rate design for customers in the former PRC service area) would create a uniform, consolidated rate schedule that serves administrative economy and reduces the cost of administering multiple rate designs. [*Id.*][78] In support of a reduction in these non-recurring charges, Mr. Daday reiterated Palmetto's goal of developing a single tariff and noted that the alternative – raising the non-recurring charges imposed on customers not in the former PRC service area – was not supportable because the City of Columbia rates and charges are not cost-based.[79] Mr. Daday further stated that the Company had understood that its plant impact fee was

[77] Application at 3, para. 4.c.

[78] In its Application, Palmetto also asserted that, because it sought a reduction and not an increase in these non-recurring charges, it was not required to comply with Commission Regulation 103-512.4.A(9) pertaining to cost-justification for proposed non-recurring charges, including tap fees. Alternatively, Palmetto requested that the Commission waive any requirement to provide cost-justification for the proposed reduced non-recurring charges as permitted by Commission Regulation 103-803. Application at 5, n.1.

[79] Tr. p. 245, l. 10- p. 246, l.2.

intended to recover only a portion of the cost of capacity, not its full cost[80], and that the $800 plant impact fee had spurred growth in the historic Palmetto service territory.[81]

ORS did not make any filing in response to Palmetto's request that the Application be accepted without specific cost-justifications for the proposed reduced non-recurring charges. Furthermore, although ORS asserted in its direct testimony that "[Palmetto] should establish non-recurring charges and fees at a sufficient level to recover the true cost" in order to avoid the potential for "a cost shift which impacts the Company's existing customers"[82], ORS accepted the reduction in these non-recurring charges for rate making purposes in its proposed accounting adjustments. [83]

The Commission approves the reduction in these non-recurring charges for several reasons. First, granting Palmetto's requested waiver is appropriate as it is in the public interest that new customers not be charged non-recurring charges which are not cost-justified. As pointed out by Palmetto, the $2,640 plant expansion fee, the $1,300/$300 connection fee, and the $30 customer account charge imposed by the City of Columbia and adopted in Order No. 2012-960 may well not be cost-justified as a matter of law given that the City of Columbia was, at the time, using utility revenue for general fund purposes. *See Azar v. City of Columbia*, 414 S.C. 307, 778 S.E.2d 315 (2015).[84] More to the point, non-

[80] Tr. p. 246, ll. 3-5.

[81] Tr. p.296, l. 21 – p. 297, l.13.

[82] Tr. p. 388, ll. 16-19.

[83] Hearing Exhibit 13, Surr. Ex. ALB-1, adjustment 11.

[84] "[T]he law requires some nexus between the City's provision of water and sewer services and the underlying purpose of each expenditure or transfer of water and sewer funds. Simply put, the statutes do not allow these revenues to be treated as a slush fund." *Id*., 414 S.C. at 317, 778 S.E.2d at 320.

recurring charges established by another (and unregulated) utility cannot be said to be cost-justified with respect to another, regulated utility's cost of connection and capacity. Second, the "tap fee" component of non-recurring charges is not required to recover all costs of making capacity available for a customer, but only a portion of those costs. *See* 10 S.C. Code Ann. Regs. 103-502.10 (2015). Therefore, to the extent ORS's premise that there is some "sufficient level to recover the true cost" suggests that all such costs must be covered by the non-recurring charge, it is inconsistent with our regulation. Third, continuing to have non-recurring charges which differ among new customers served by the same utility makes little sense and would potentially discourage development in one part of the Company's service area in favor of another part. Palmetto's proposal to provide for uniform non-recurring charges for all new customers is therefore in the public interest as it will encourage equal economic development in all parts of the Company's service area. *Cf.* S.C. Code Ann. § 58-4-10(B)(2).

IV. CONCLUSION

Based upon the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable.

IT IS THEREFORE ORDERED THAT:

1. The rates and charges attached on Appendix A are approved for service rendered on or after March 7, 2018, and this rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann § 58-5-240 (2015).

2. Should the approved schedule not be placed into effect before three months after the effective date of this Order, then the approved schedule shall not be charged without written permission of the Commission.

3. Palmetto shall maintain its books and records for its operations in accordance with the NARUC Uniform System of Accounts for Class A utilities, as adopted by the Commission.

4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Swain E. Whitfield, Chairman

ATTEST:

Comer H. Randall, Vice Chairman

APPENDIX A

PALMETTO UTILITIES, INC.
1710 WOODCREEK FARMS ROAD
COLUMBIA, SC 29045
(803) 699-2422

SEWER RATE SCHEDULE

1. **MONTHLY CHARGE**

a. Residential - Monthly charge per single-family house, condominium, villa or apartment unit $52.10

b. Commercial - Monthly charge per single-family equivalent $52.10

c. The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly commercial charges may be calculated by multiplying the equivalency rating by the monthly charge of $52.10. The monthly residential charge shall be $52.10 regardless of the equivalency rating.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility may, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. **NONRECURRING CHARGES**

a.	Sewer service connection charge per single-family equivalent	$250.00
b.	Plant Impact fee per single-family equivalent	$800.00

c. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. **BULK TREATMENT SERVICES**

The Utility will provide bulk treatment services to Richland County ("County") upon request by the County in the portion of the service territory for which the utility acts as the County's contractual agent for purposes of discharging the County's designated management agency function under the Federal Clean Water Act Section 208 water quality management plan adopted by the Central Midlands Council of Governments. The rates for such bulk treatment services shall be as set forth above for both monthly charges and nonrecurring charges per single-family equivalent. The County shall certify to the Utility the number of units or taps (residential and commercial) which discharge wastewater into the County's collection system and shall provide all other information required by the Utility in order that the Utility may accurately determine the proper charges to be made to the County. The County shall insure that all commercial customers comply with the Utility's toxic and pretreatment effluent guidelines and refrain from discharging any toxic or hazardous materials or substances into the collection system. The County will maintain the authority to interrupt service immediately where customers violate the Utility's toxic or pretreatment effluent standards of discharge prohibited wastes into the sewer system. The Utility shall have the unfettered right to interrupt bulk service to the County if it determines that forbidden wastes are being or are about to be discharged into the Utility's sewer system.

The County shall pay for all costs of connecting its collection lines into the Utility's mains, installing a meter of quality acceptable to the Utility to measure flows, and constructing a sampling station according to the Utility's construction requirements.

4. **NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES**

a. Notification Fee: A fee of $25.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service

being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.

b. Customer Account Charge: A fee of $20.00 shall be charged as a one-time fee to defray the costs of initiating service.

c. Reconnection charges: In addition to any other charges that may be due, a reconnection fee of $250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars ($35.00) shall be due. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

5. BILLING CYCLE

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

6. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1½%) percent.

7. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §§ 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §§ 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

8. REQUIREMENTS AND CHARGES PERTAINING TO SATELLITE SYSTEMS

a. Where there is connected to the Utility’s system a satellite system, as defined in DHEC Regulation 61-9.505.8 or other pertinent law, rule or regulation, the

owner or operator of such satellite system shall operate and maintain same in accordance with all applicable laws, rules or regulations.

b. The owner or operator of a satellite system shall construct, maintain, and operate such satellite system in a manner that the prohibited or untreated materials referred to in Section 6 of this rate schedule (including but not limited to Fats, Oils, Sand or Grease), stormwater, and groundwater are not introduced into the Utility's system.

c. The owner or operator of a satellite system shall provide Utility with access to such satellite system and the property upon which it is situated in accordance with the requirements of Commission Regulation 103-537.

d. The owner or operator of a satellite system shall not less than annually inspect such satellite system and make such repairs, replacements, modifications, cleanings, or other undertakings necessary to meet the requirements of this Section 7 of the rate schedule. Such inspection shall be documented by written reports and video recordings of television inspections of lines and a copy of the inspection report received by the owner or operator of a satellite system, including video of the inspection, shall be provided to Utility. Should the owner or operator fail to undertake such inspection, Utility shall have the right to arrange for such inspection and to recover the cost of same, without mark-up, from the owner or operator of the satellite system.

e. Should Utility determine that the owner or operator of a satellite system has failed to comply with the requirements of this Section 8 of the rate schedule, with the exception of the requirement that a satellite system be cleaned, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, said disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are paid. With respect to the cleaning of a satellite system, the owner or operator of a satellite system shall have the option of cleaning same within five (5) business days after receiving written notice from Utility that an inspection reveals that a cleaning is required. Should the owner or operator of such a satellite system fail to have the necessary cleaning performed within that time frame, Utility may arrange for cleaning by a qualified contractor and the cost of same, without mark-up, may be billed to the owner or operator of said system.

9. **CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

10. EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

11. CONTRACTS FOR MULTI-TAP CAPACITY

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

12. SINGLE FAMILY EQUIVALENT

A single family equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --6 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2016). Where the Utility has reason to suspect that a person or entity is exceeding design loadings established by the Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.